

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Farmington, Michigan</u>	County Oakland
Audit Date June 30, 2005	Opinion Date September 23, 2005	Date Accountant Report Submitted To State: December 6, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Farmington, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

City of Farmington, Michigan

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Independent Auditor's Report

To the City Council
City of Farmington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Farmington, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Farmington, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 16, 2005

City of Farmington, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

The City's annual report has been prepared in compliance with Governmental Accounting Standards Board's (GASB) Statement No. 34 and consists of management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements were designed to provide a broad overview of the City's finances and are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources as measured in the individual fund statements. These statements make a distinction between governmental activities such as public safety and public works and business-type activities such as the provision of water and sewer services. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds and compiled financial information is provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works, proprietary funds, which account for business-type activities such as provision of water and sewer services, and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities, such as bonds, accrued interest, and accrued employee leave time, in the government-wide statement of net assets, which are not included in the fund balance sheets; and the recognition of certain revenues and expenditures such as bond proceeds, capital outlays, and debt principal repayment in the individual fund statements, which are not recorded in the government-wide statements.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Financial Position and Results of Operation for the City as a Whole

The City had a decrease of \$90,000 in net assets in its governmental activities for the fiscal year ended June 30, 2005. This decrease was primarily the result of a transfer from the Capital Improvement Fund to the Community Theatre Fund of \$780,114. Excluding this one-time transfer, the governmental activities had an increase in net assets of approximately \$690,000. This increase is largely due to expenditures in general government, public safety, and recreation and culture significantly below budget, and a planned increase of resources in the Major Streets Fund for an upcoming road project.

The City had an increase of \$1,220,000 in net assets in its business-type activities for the fiscal year ended June 30, 2005, due to an increase in net assets of its Water and Sewer Fund of \$380,000 and an increase in net assets of its Farmington Community Theater Fund of \$840,000. The increase in the Water and Sewer Fund's net assets primarily relates to property tax revenue of \$776,135, which was used to help offset principal and interest payments for the 1990 Sewer Improvement Bonds of \$750,800. The increase in the Farmington Community Theater Fund's net assets primarily relates to the forgiveness of a long-term loan made from the Capital Improvement Fund to the Farmington Community Theater Fund in the amount of \$780,114. This loan was forgiven in order to provide financial stability to the Theater and to ensure it will continue to serve as a recreational opportunity for Farmington residents and as an anchor supporting the viability of Farmington's downtown district.

In a condensed format, the tables below show the net assets and changes in net assets (in thousands of dollars) as of June 30, 2005 and 2004.

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 8,437	\$ 8,756	\$ 3,863	\$ 3,729	\$ 12,300	\$ 12,485
Noncurrent assets	12,833	12,666	17,579	17,242	30,412	29,908
Total assets	21,270	21,422	21,442	20,971	42,712	42,393
Liabilities						
Current liabilities	1,087	1,285	1,285	1,258	2,372	2,543
Long-term liabilities	2,178	2,042	5,180	5,955	7,358	7,997
Total liabilities	3,265	3,327	6,465	7,213	9,730	10,540
Net Assets						
Invested in capital assets - Net of related debt	10,756	10,074	11,547	11,242	22,303	21,316
Restricted	1,492	1,197	77	75	1,569	1,272
Unrestricted	5,757	6,824	3,353	2,441	9,110	9,265
Total net assets	<u>\$ 18,005</u>	<u>\$ 18,095</u>	<u>\$ 14,977</u>	<u>\$ 13,758</u>	<u>\$ 32,982</u>	<u>\$ 31,853</u>

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 1,345	\$ 1,184	\$ 3,191	\$ 3,350	\$ 4,536	\$ 4,534
Operating grants and contributions	707	691	-	-	707	691
Capital grants and contributions	64	-	40	13	104	13
General revenue:						
Property taxes	4,993	4,855	798	692	5,791	5,547
State-shared revenues	979	993	-	-	979	993
Unrestricted investment earnings	165	75	57	23	222	98
Cable franchise fees	64	63	-	-	64	63
Cell tower fees	35	18	-	-	35	18
Miscellaneous	28	27	-	-	28	27
Transfers	(933)	(123)	933	123	-	-
Gain on sale of capital assets	14	16	-	-	14	16
Total revenue	7,461	7,799	5,019	4,201	12,480	12,000
Program Expenses						
General government	1,752	1,679	-	-	1,752	1,679
Public safety	2,798	2,795	-	-	2,798	2,795
Public works	2,067	1,737	-	-	2,067	1,737
Health and welfare	13	28	-	-	13	28
Community and economic development	61	32	-	-	61	32
Recreation and culture	773	704	-	-	773	704
Interest on long-term debt	84	74	-	-	84	74
Water and sewer	-	-	3,403	3,600	3,403	3,600
Community theatre	-	-	397	386	397	386
Total program expenses	7,548	7,049	3,800	3,986	11,348	11,035
Change in Net Assets	\$ (87)	\$ 750	\$ 1,219	\$ 215	\$ 1,132	\$ 965

Governmental Activities

The City continues to experience modest but steady growth in tax revenues, which have been capped by state statute since 1996 at 5 percent, or the rate of inflation. Expenses, which had remained relatively stable over a number of years and within the general rate of inflation, continue to see double-digit inflation, particularly in insurance premiums, including health care premiums, and in the employer contribution for employee pension benefits.

State-shared revenues, statutorily designated to support local community services and historically about 20 percent of the City's general operating revenues, continued to decline in the current year, becoming the third largest revenue source, behind property taxes and charges for service. The State of Michigan continues to capture local government revenues to fund state expenditures. The following is an analysis of the state-shared revenue received by the City for the years ended June 30, 2001 through 2005:

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Year Ended June 30	Statutory		Constitutional		Total Revenue	
	Revenue Sharing	Percent Change	Revenue Sharing	Percent Change	Sharing	Percent Change
2001	\$ 541,376	-	\$ 676,371	-	\$ 1,217,747	-
2002	480,972	-11.2%	683,261	1.0%	1,164,233	-4.4%
2003	405,331	-15.7%	694,599	1.7%	1,099,930	-5.5%
2004	305,767	-24.6%	687,509	-1.0%	993,276	-9.7%
2005	276,540	-9.6%	702,303	2.2%	978,843	-1.5%

The City of Farmington, by policy, strives to maintain a cash surplus sufficient to bridge any expected gap in current year revenues or increases in ordinary, unanticipated current year expenditures. Prudent financial planning places the City in a sound financial position with adequate cash reserves. In 2005, the City received an "AA" bond rating, with the rating agency analysis noting that "the City's financial management is excellent, with both short- and long-term planning taking place."

Business-type Activities

The City operates a water and sewer system and a theatre. The water and sewer system provides water and sewage services to almost all of the City's residents and to some outside users. Rates are set to provide for annual operations, to service debt, and to build an operating cash reserve. Rates are evaluated annually and increased July 1, 2004 by 3.16 percent for water and 2.99 percent for sewer. Water loss for the year was approximately 12.4 percent of water purchased, and increased from the prior year by 3.8 percent.

The City operates a theatre, which ended the year with an operating loss, including depreciation charges of \$63,000. The City purchased the theatre in 1999 and anticipated operating deficits for the first several years of operation.

Analysis of Individual Funds

Of the City's governmental funds, the General Fund and the Major and Local Streets Funds account for all significant expenditures, except for debt service.

The General Fund ended the fiscal year with an addition to fund balance of \$309,753. Major revenue sources, including property taxes and charges for services, increased modestly for the year ended June 30, 2005. State-shared revenues, the City's third largest revenue source, decreased slightly.

Both the Major and Local Streets Funds continue to have healthy balances. City streets are in excellent condition, and as a result of a voter-approved millage for street construction and maintenance, funding remains adequate for future road projects and road repair needs.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

General Operating Fund Budget Highlights

General Fund - Actual revenues exceeded budget by \$34,956. The original budget was amended to include increased revenue of \$589,697. Budgeted revenues were increased to include a transfer of \$318,182 from the Capital Improvement Fund related to the purchase of the old 47th District Court facility. The remainder of the increase in budgeted revenue related to minor adjustments to various charges for service. Actual expenditures were under budget by \$293,153. The original budget was amended to include an increase in budgeted expenditures of \$608,053. Budgeted expenditures were increased to include \$318,182 of expenditures related to the purchase of the old 47th District Court facility. Also, budgeted expenditures were increased \$163,515 for sidewalk improvements that were originally budgeted in the prior fiscal year. The remaining increase in budgeted amounts related to small adjustments to various departments.

During the annual budget process, the City completes an extensive review of the current year budget, culminating in a budget amendment to appropriate the revised expenditure estimates. As a result of carefully monitoring expenditures throughout the year and a practice and history of conservative budgeting, the General Fund ended the year with a surplus of \$309,753, exceeding budgeted projections by \$328,109. This was due primarily to unfilled positions with related employee benefit costs, and cost containment measures taken by all departments related to ordinary operating expenditures.

Major, Local, and Municipal Street Fund - There were no significant revenue variances from the budget, nor were there any significant amendments to budgeted revenue. The expenditures recorded in these street funds are divided into two categories: construction and operation and maintenance. Variances and amendments to the budget related to construction resulted solely from the timing difference between when the projects were budgeted and when work was completed. The timing differences occur because the City's road programs typically span two fiscal years. There were no significant variances or amendments related to operations and maintenance expenditures.

Capital Improvement Fund - Actual revenues exceeded budget by \$15,823 as a result of higher than anticipated investment returns. There were no significant amendments to budgeted revenue. Actual expenditures were under budget by \$318,340 primarily due to the fact that \$200,187 of budgeted expenditures related to the downtown development project were not incurred until after year end. Budgeted expenditures were increased by \$1,536,799 to include a \$780,114 transfer to the Farmington Community Theater Fund for the forgiveness of a long-term loan, a transfer of \$426,000 related to the downtown development project, and a transfer of \$318,182 related to the purchase of the old 47th District Court facility.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Long-term Debt Activity

Major capital asset and infrastructure additions in governmental funds consisted of the following:

1. Road improvements in the amount of \$324,506, \$55,412 in major street improvements, and \$269,094 in local street improvements
2. Sidewalk improvements of \$163,514
3. Preliminary engineering and construction related to the downtown development project in the amount of \$225,813
4. Purchase of the old 47th District Court Facility in the amount of \$713,544

Major capital asset and infrastructure additions in the business-type funds consisted primarily of roof repairs made to the Civic Theatre in the amount of \$77,640.

The City did not issue any new debt during the 2004-2005 fiscal year and serviced all outstanding debt on a timely basis.

Economic Factors and Next Year's Budgets and Rates

The City has enjoyed a relatively stable property tax millage rate over many years with the exception of a millage added in 1991 to provide for extensive revisions to the City's sewer system and a road program millage approved by the voters in 1995 to ensure streets in the City are in excellent repair. With these two additions totaling approximately 4 mills, the millage went from about 11 mills in 1990 to just over 15 mills in 2003 and remained at just over 15 mills in 2004. During this time, the City also discontinued special assessments for sidewalk repairs, instead providing for sidewalk repairs through the tax millage.

For the 2005-2006 fiscal year, the City decreased the total number of mills levied by .7 mills. The reduction was made when voters approved a separate operating millage for the Farmington Library, which had previously been supported through contributions by the cities of Farmington and Farmington Hills.

Farmington is a fully developed small city and as such depends on growth in property values to offset growth in expenditures supported by taxes, and to offset reductions in state-shared revenues. Following the passage of what is referred to as Prop A, a constitutional provision and related state legislation limiting local property tax revenues, the City has aggressively sought to increase net assets to protect the City's long-term financial condition.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Property taxes account for almost 56 percent of General Fund revenues, down from 60 percent last fiscal year, and property tax values have grown by an average of 3.69 percent over the last five years. State-shared revenues, which have historically accounted for about 20 percent of General Fund revenues, have declined to about 12.9 percent this year, down from 16.0 percent last fiscal year, and current funding levels remain at risk due to the financial condition and priorities of the State. Due to the uncertainty of state-shared revenues, the City decided to eliminate the statutory portion of state-shared revenue from its General Fund budget and record it instead in the Capital Improvement Fund for the 2005-2006 fiscal year.

The City budgeted for continued increases in employee and postemployment benefit costs in the 2005-2006 fiscal year, including increased pre-funding of retiree health care benefits. The City has taken steps in labor contract negotiations and other employment agreements to contain the cost of providing health care benefits.

During the year ended June 30, 2005, the City began construction related to a Downtown Development Project. The Downtown Development Project follows the Downtown Master Plan, and seeks to improve the visual and functional aspects of the Downtown. Included in the project are the building of a pavilion, park, and two new streets. These items will help transform the principal shopping district into a more traditional downtown district. The project is being financed through a combination of debt, special assessments, City resources, and private donations. As a result of an AA bond rating, Farmington was able to issue its bonds at a favorable interest rate and reduce the costs of the overall project.

The City has experienced no specific events which it believes will materially impact the finances of the City but notes certain long-term trends such as capped property tax revenues and shrinking state-shared revenues, which will have a direct impact on the City's ability to provide current services as inflation in the cost of providing services reappears. Adequate cash reserves and authorized unlevied millage ensures provision of current services in the near term as the City meets these challenges and plans for the future.

Contacting the City's Financial Management

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the city manager or city treasurer at City Hall, 23600 Liberty Street, Farmington, Michigan 48335.

City of Farmington, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Unit
	Governmental	Business-type		Downtown
	Activities	Activities	Total	Development
				Authority
Assets				
Cash and investments (Note 3)	\$ 7,671,430	\$ 2,871,746	\$ 10,543,176	\$ 463,426
Receivables (Note 4)	586,697	961,741	1,548,438	2,964
Internal balances	38,039	(38,039)	-	-
Prepaid costs and other assets	140,682	67,430	208,112	-
Restricted assets	-	76,928	76,928	-
Capital assets (Note 5):				
Depreciable	11,246,954	17,296,640	28,543,594	82,228
Nondepreciable	1,586,284	205,614	1,791,898	76,500
Total assets	21,270,086	21,442,060	42,712,146	625,118
Liabilities and Net Assets				
Liabilities				
Accounts payable	331,085	383,078	714,163	11,947
Accrued and other liabilities	131,874	51,023	182,897	-
Due to other governmental units	-	217	217	6,806
Noncurrent liabilities:				
Bonds payable, due within one year (Note 7)	268,719	775,000	1,043,719	-
Bonds payable, due in more than one year (Note 7)	1,808,051	5,180,000	6,988,051	-
Employee compensated absences, due within one year	355,560	75,733	431,293	-
Employee compensated absences, due in more than one year	369,523	-	369,523	-
Total liabilities	3,264,812	6,465,051	9,729,863	18,753
Net Assets				
Invested in capital assets - Net of related debt	10,756,468	11,547,254	22,303,722	158,728
Restricted:				
Streets and highways	1,446,106	-	1,446,106	-
Sidewalks	37,312	-	37,312	-
Debt service	8,166	1,928	10,094	-
Bond covenants	-	75,000	75,000	-
Unrestricted	5,757,222	3,352,827	9,110,049	447,637
Total net assets	\$ 18,005,274	\$ 14,977,009	\$ 32,982,283	\$ 606,365

City of Farmington, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,753,431	\$ 647,009	\$ -	\$ -
Public safety	2,798,316	239,816	16,983	30,898
Public works	2,067,044	406,267	690,400	-
Health and welfare	12,960	-	-	-
Community and economic development	61,283	10,483	-	-
Recreation and culture	773,408	40,946	-	33,399
Interest on long-term debt	83,874	-	-	-
Total governmental activities	7,550,316	1,344,521	707,383	64,297
Business-type activities:				
Water and sewer	3,402,136	2,889,626	-	39,644
Farmington Community Theater	397,269	301,156	-	-
Total business-type activities	3,799,405	3,190,782	-	39,644
Total primary government	<u>\$ 11,349,721</u>	<u>\$ 4,535,303</u>	<u>\$ 707,383</u>	<u>\$ 103,941</u>
Component unit - Downtown Development Authority	<u>\$ 324,904</u>	<u>\$ -</u>	<u>\$ 142,546</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State-shared revenues
 Unrestricted investment earnings
 Cable franchise fees
 Cell tower fees
 Miscellaneous
 Transfers
 Gain on sale of capital assets

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,106,422)	\$ -	\$ (1,106,422)	\$ -
(2,510,619)	-	(2,510,619)	-
(970,377)	-	(970,377)	-
(12,960)	-	(12,960)	-
(50,800)	-	(50,800)	-
(699,063)	-	(699,063)	-
(83,874)	-	(83,874)	-
(5,434,115)	-	(5,434,115)	-
-	(472,866)	(472,866)	-
-	(96,113)	(96,113)	-
-	(568,979)	(568,979)	-
(5,434,115)	(568,979)	(6,003,094)	-
-	-	-	(182,358)
4,993,420	797,963	5,791,383	202,786
978,843	-	978,843	-
164,512	56,766	221,278	6,814
64,042	-	64,042	-
35,074	-	35,074	-
27,559	-	27,559	1,525
(933,387)	933,387	-	-
13,865	-	13,865	-
5,343,928	1,788,116	7,132,044	211,125
(90,187)	1,219,137	1,128,950	28,767
18,095,461	13,757,872	31,853,333	577,598
\$ 18,005,274	\$ 14,977,009	\$ 32,982,283	\$ 606,365

City of Farmington, Michigan

	Major Special Revenue Funds			
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Street Fund
Assets				
Cash and investments	\$ 3,867,773	\$ 653,839	\$ 33,972	\$ 760,295
Receivables - Net	454,679	77,197	54,821	-
Due from other funds	276,020	55,412	324,836	-
Other assets	46,339	-	-	-
Total assets	<u>\$ 4,644,811</u>	<u>\$ 786,448</u>	<u>\$ 413,629</u>	<u>\$ 760,295</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 205,389	\$ 4,926	\$ 105,760	\$ -
Accrued and other liabilities	112,249	-	-	-
Due to other funds	107,731	26,490	11,527	365,563
Total liabilities	425,369	31,416	117,287	365,563
Fund Balances				
Reserved for:				
Sidewalks	37,312	-	-	-
Debt service	-	-	-	-
Inventory	46,339	-	-	-
Unreserved - Reported in:				
General Fund	2,564,770	-	-	-
Special Revenue Funds	-	752,352	296,342	201,882
Capital Projects Fund	-	-	-	-
Designated (Note 11)	1,571,021	2,680	-	192,850
Total fund balances	<u>4,219,442</u>	<u>755,032</u>	<u>296,342</u>	<u>394,732</u>
Total liabilities and fund balances	<u>\$ 4,644,811</u>	<u>\$ 786,448</u>	<u>\$ 413,629</u>	<u>\$ 760,295</u>

**Governmental Funds
Balance Sheet
June 30, 2005**

Major Special Revenue Fund	Major Capital Project Funds	Other Nonmajor Governmental Funds	Total Governmental Funds
Capital Improvement Fund	Downtown Capital Projects Fund		
\$ 2,092,374	\$ 15,010	\$ 8,166	\$ 7,431,429
-	-	-	586,697
118,895	225,813	-	1,000,976
-	-	-	46,339
<u>\$ 2,211,269</u>	<u>\$ 240,823</u>	<u>\$ 8,166</u>	<u>\$ 9,065,441</u>
\$ -	\$ 15,010	\$ -	\$ 331,085
-	-	-	112,249
225,813	225,813	-	962,937
225,813	240,823	-	1,406,271
-	-	-	37,312
-	-	8,166	8,166
-	-	-	46,339
-	-	-	2,564,770
-	-	-	1,250,576
1,985,456	-	-	1,985,456
-	-	-	1,766,551
1,985,456	-	8,166	7,659,170
<u>\$ 2,211,269</u>	<u>\$ 240,823</u>	<u>\$ 8,166</u>	<u>\$ 9,065,441</u>

City of Farmington, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2005

Fund Balance - Total Governmental Funds	\$ 7,659,170
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	12,833,238
Long-term liabilities not due and payable in the current period and not reported in the funds, including:	
Compensated absences	(725,083)
Interest payable	(19,108)
Bonds payable	(2,076,770)
Internal Service Fund is included as part of governmental activities	<u>333,827</u>

Net Assets - Governmental Activities	<u><u>\$ 18,005,274</u></u>
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City of Farmington, Michigan

	Major Special Revenue Funds			
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Street Fund
Revenues				
Property taxes	\$ 4,485,685	\$ -	\$ -	\$ 373,072
Licenses and permits	132,527	-	-	-
Federal grants	64,297	-	-	-
State-shared revenues and grants	995,826	483,442	169,083	-
Charges for services	1,349,002	-	-	-
Fines and forfeitures	413,665	-	-	-
Interest and rentals	142,997	10,408	1,095	13,294
Other	60,730	1,259	37,054	-
Total revenues	7,644,729	495,109	207,232	386,366
Expenditures				
Current:				
General government	2,098,037	-	-	-
Court	400,310	-	-	-
Public safety	2,062,896	-	-	-
Public services	1,107,952	349,594	442,777	-
Health and welfare	12,960	-	-	-
Community and economic development	61,283	-	-	-
Recreation and culture	480,617	-	-	-
Library	263,298	-	-	-
Other:				
Insurance and bonds	114,494	-	-	-
Employee benefits	1,065,537	-	-	-
Retiree health care plan	265,798	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	1,115	-	-	-
Total expenditures	7,934,297	349,594	442,777	-
Excess of Revenues Over (Under) Expenditures	(289,568)	145,515	(235,545)	386,366
Other Financing Sources (Uses)				
Transfers in	318,182	55,412	324,836	-
Transfers out	(75,633)	(14,685)	(41,058)	(365,563)
Proceeds from debt	356,772	-	-	-
Total other financing sources (uses)	599,321	40,727	283,778	(365,563)
Net Change in Fund Balances	309,753	186,242	48,233	20,803
Fund Balances - Beginning of year	3,909,689	568,790	248,109	373,929
Fund Balances - End of year	\$ 4,219,442	\$ 755,032	\$ 296,342	\$ 394,732

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2005

Major Special Revenue Fund	Major Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Capital Improvement Fund	Downtown Capital Projects Fund		
\$ -	\$ -	\$ 134,663	\$ 4,993,420
-	-	-	132,527
-	-	-	64,297
-	-	-	1,648,351
-	-	-	1,349,002
-	-	-	413,665
41,373	-	827	209,994
-	-	-	99,043
41,373	-	135,490	8,910,299
-	-	-	2,098,037
-	-	-	400,310
-	-	-	2,062,896
-	225,813	-	2,126,136
-	-	-	12,960
-	-	-	61,283
-	-	-	480,617
-	-	-	263,298
-	-	-	114,494
-	-	-	1,065,537
-	-	-	265,798
-	-	92,403	92,403
-	-	82,494	83,609
-	225,813	174,897	9,127,378
41,373	(225,813)	(39,407)	(217,079)
-	225,813	41,058	965,301
(1,401,749)	-	-	(1,898,688)
-	-	-	356,772
(1,401,749)	225,813	41,058	(576,615)
(1,360,376)	-	1,651	(793,694)
3,345,832	-	6,515	8,452,864
\$ 1,985,456	\$ -	\$ 8,166	\$ 7,659,170

City of Farmington, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (793,694)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; in the
statement of activities, these costs are allocated over their estimated
useful lives as depreciation:

Capital outlay expenditures	1,588,324
Depreciation expense - Net of adjustments	(641,206)

Revenue related to special assessments is recorded when earned in the statement of activities, and recorded only when available in the governmental funds	(1,642)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	92,403
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Proceeds from debt are not reported as financing sources on the statement of activities	(356,772)
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Increase in accrued interest recorded in the statement of activities	(265)
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Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(4,649)
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Internal Service Funds are included as governmental activities	<u>27,314</u>
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Change in Net Assets of Governmental Activities \$ (90,187)

City of Farmington, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Assets				
Current assets:				
Cash and investments	\$ 2,827,532	\$ 44,214	\$ 2,871,746	\$ 240,001
Receivables - Net	961,741	-	961,741	-
Due from other funds	20,848	86,883	107,731	-
Other assets	52,210	15,220	67,430	94,343
Total current assets	3,862,331	146,317	4,008,648	334,344
Noncurrent assets:				
Restricted assets	76,928	-	76,928	-
Capital assets	16,397,369	1,104,885	17,502,254	-
Total noncurrent assets	16,474,297	1,104,885	17,579,182	-
Total assets	20,336,628	1,251,202	21,587,830	334,344
Liabilities				
Current liabilities:				
Accounts payable	372,318	10,760	383,078	-
Accrued and other liabilities	46,490	4,533	51,023	517
Due to other funds	26,822	118,948	145,770	-
Due to other governmental units	-	217	217	-
Current portion of employee compensated absences	75,733	-	75,733	-
Current portion of long-term debt	735,000	40,000	775,000	-
Total current liabilities	1,256,363	174,458	1,430,821	517
Noncurrent liabilities - Long-term debt - Net of current portion	4,665,000	515,000	5,180,000	-
Total liabilities	5,921,363	689,458	6,610,821	517
Net Assets				
Investment in capital assets - Net of related debt	10,997,369	549,885	11,547,254	-
Restricted	76,928	-	76,928	-
Unrestricted net assets	3,340,968	11,859	3,352,827	333,827
Total net assets	\$ 14,415,265	\$ 561,744	\$ 14,977,009	\$ 333,827

City of Farmington, Michigan

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)

Year Ended June 30, 2005

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Operating Revenues				
Fees	\$ -	\$ 301,156	\$ 301,156	\$ -
Water sales	1,207,755	-	1,207,755	-
Sewage disposal charges	1,559,195	-	1,559,195	-
Service charges	69,669	-	69,669	176,145
Other income	53,007	-	53,007	499
Total operating revenues	2,889,626	301,156	3,190,782	176,644
Operating Expenses				
Source of supply	1,524,037	-	1,524,037	-
Transmission, distribution, and maintenance	879,579	-	879,579	-
Administrative and general	867,286	364,609	1,231,895	-
Insurance costs	-	-	-	157,644
Total operating expenses	3,270,902	364,609	3,635,511	157,644
Operating Income (Loss)	(381,276)	(63,453)	(444,729)	19,000
Nonoperating Revenue (Expense)				
Property taxes	797,963	-	797,963	-
Investment income	56,184	582	56,766	8,314
Interest expense	(131,234)	(32,660)	(163,894)	-
Total nonoperating revenue (expense)	722,913	(32,078)	690,835	8,314
Capital Contributions	39,644	-	39,644	-
Transfers in from Other Funds	-	933,387	933,387	-
Change in Net Assets	381,281	837,856	1,219,137	27,314
Net Assets (Deficit) - Beginning of year	14,033,984	(276,112)	13,757,872	306,513
Net Assets - End of year	<u>\$ 14,415,265</u>	<u>\$ 561,744</u>	<u>\$ 14,977,009</u>	<u>\$ 333,827</u>

City of Farmington, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Enterprise Funds			
	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,852,779	\$ 301,156	\$ 3,153,935	\$ 176,644
Payments to suppliers	(2,024,166)	(336,852)	(2,361,018)	(180,687)
Payments to employees	(681,336)	-	(681,336)	-
Internal activity - Net payments to other funds	(21,369)	31,667	10,298	-
Other receipts	53,007	-	53,007	-
Net cash provided by (used in) operating activities	178,915	(4,029)	174,886	(4,043)
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(73,392)	(77,640)	(151,032)	-
Capital contributions	39,644	-	39,644	-
Transfers from other funds	-	153,273	153,273	-
Principal and interest paid on capital debt	(846,234)	(67,660)	(913,894)	-
Property taxes	797,963	-	797,963	-
Net cash provided by (used) in capital and related financing activities	(82,019)	7,973	(74,046)	-
Cash Flows from Investing Activities - Interest received on investments	56,184	582	56,766	8,314
Net Increase in Cash and Cash Equivalents	153,080	4,526	157,606	4,271
Cash and Cash Equivalents - Beginning of year	2,751,380	39,688	2,791,068	235,730
Cash and Cash Equivalents - End of year	<u>\$ 2,904,460</u>	<u>\$ 44,214</u>	<u>\$ 2,948,674</u>	<u>\$ 240,001</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 2,827,532	\$ 44,214	\$ 2,871,746	\$ 240,001
Restricted investments (Note 3)	76,928	-	76,928	-
Total cash and cash equivalents	<u>\$ 2,904,460</u>	<u>\$ 44,214</u>	<u>\$ 2,948,674</u>	<u>\$ 240,001</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (381,276)	\$ (63,453)	\$ (444,729)	\$ 19,000
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	562,532	33,273	595,805	-
Changes in assets and liabilities:				
Receivables	16,160	-	16,160	-
Due from other funds	(20,848)	(86,883)	(107,731)	-
Other assets	(5,429)	437	(4,992)	(22,943)
Accounts payable	(2,016)	(5,142)	(7,158)	-
Accrued and other liabilities	10,313	(811)	9,502	(100)
Due to other funds	(521)	118,550	118,029	-
Net cash provided by (used in) operating activities	<u>\$ 178,915</u>	<u>\$ (4,029)</u>	<u>\$ 174,886</u>	<u>\$ (4,043)</u>

Noncash Activity - In the current year, the Capital Improvement Fund forgave \$780,114 of the advance due from the Farmington Community Theater Fund. The amount is included in the transfers line of the statement of revenue, expenses, and changes in net assets of the Farmington Community Theater Fund.

City of Farmington, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	Pension and Other Employee Benefits	Private Purpose Trust Fund - Cemetery Perpetual Care Trust	Agency Fund
Assets			
Cash and investments:			
Cash and cash equivalents	\$ 8,510	\$ 18,968	\$ 146,147
U.S. governmental securities	1,880,230	-	-
Corporate stock	5,689,081	-	-
Corporate bonds	2,992,827	-	-
Mutual funds	4,135,408	-	-
Investment pools	1,744,010	-	-
Receivables	1,129,356	-	111
Total assets	17,579,422	<u>\$ 18,968</u>	<u>\$ 146,258</u>
Liabilities			
Accounts payable	14,742	\$ -	\$ 238
Due to other governmental units	-	-	8,766
Accrued and other liabilities	25,555	18,968	137,254
Total liabilities	40,297	<u>\$ 18,968</u>	<u>\$ 146,258</u>
Net Assets - Held in trust for pension and other employee benefits			
	<u>\$ 17,539,125</u>		

City of Farmington, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	Pension and Other Employee Benefits
Additions	
Investment income:	
Interest and dividends	\$ 524,461
Net realized and unrealized gain on investments	776,839
Less investment expenses	<u>(96,401)</u>
Net investment income	1,204,899
Contributions:	
Employer	529,620
Employee	<u>50,425</u>
Total contributions	<u>580,045</u>
Total additions	1,784,944
Deductions	
Benefit payments	787,562
Insurance costs	<u>265,345</u>
Total deductions	<u>1,052,907</u>
Net Increase in Plan Net Assets	732,037
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>16,807,088</u>
End of year	<u><u>\$ 17,539,125</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Farmington (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although the City's component units are legally separate entities, in substance, they are part of the City's operations. (See discussion below for description and treatment of each component unit).

Blended Component Unit

The City of Farmington Employees' Retirement System has been blended into the City's financial statements. The system is governed by a five-member pension board that includes two individuals chosen by the City Council and one individual, the city manager, who serves by virtue of his position. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Discretely Presented Component Units

The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is selected by the mayor with City Council approval. In addition, the Authority's budget is subject to approval by the City.

The Brownfield Redevelopment Authority (the "BRA") was created to assist in the redevelopment of environmentally challenged sites within the City. The BRA's governing body, which consists of five individuals, is appointed by the mayor with City Council approval. To date, the BRA has had no financial activity.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Jointly Governed Organizations

The City participates in the Michigan 47th District Court Administration Fund and the Farmington Community Library with the City of Farmington Hills. The City provides approximately 14 percent of the funding for the Michigan 47th District Court Administration Fund, and has recorded an equity interest in the amount of \$14,469 for the year ended June 30, 2005. The City provides less than 10 percent of the funding for the library.

Complete financial statements for the 47th District Court Administration Fund and the Farmington Community Library can be obtained from the City's administrative offices at 23600 Liberty Street, Farmington, Michigan 48335.

The City participates in the Southwest Oakland Cable Commission (the "Cable Commission") as a joint venture with the cities of Farmington Hills and Novi. The Cable Commission receives 3 percent of the total cable television charges from the cable television company as franchise fees and currently does not receive a subsidy from the City. Financial information for the joint venture can be obtained from the Cable Commission's administrative offices at 33300 Nine Mile Road, Farmington, Michigan.

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC). The RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of South Lyon. The RRRASOC receives its operating revenue from member contributions and miscellaneous income. The City contributed \$12,768 for the year ended June 30, 2005. Financial information for the RRRASOC can be obtained from the RRRASOC's administrative offices at 20000 West Eight Mile Road, Southfield, Michigan.

For all the above joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the future.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and state-shared revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- **General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Major Street Fund** - The Major Street Fund accounts for the resources obtained through state gas and weight tax revenues that are restricted for use on major streets.
- **Local Street Fund** - The Local Street Fund accounts for the resources obtained through state gas and weight tax revenues that are restricted for use on local streets.
- **Municipal Street Fund** - The Municipal Street Fund accounts for the resources obtained through property taxes that are used for both major and local street projects.

Note I - Summary of Significant Accounting Policies (Continued)

- **Capital Improvement Fund** - The Capital Improvement Fund accounts for the resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, downtown development, and enterprise projects; and for the acquisition of major capital assets.
- **Downtown Capital Projects Fund** - The Downtown Capital Projects Fund accounts for the resources obtained through debt issuance, city resources, and private donations, which are used for the purpose of constructing a pavilion, parks, and two residential streets in the downtown area.

The City reports the following major proprietary funds:

- **Water and Sewer Fund** - The Water and Sewer Fund accounts for the water distribution system and sewage collection system.
- **Farmington Community Theater Fund** - The Farmington Community Theater Fund accounts for the operations of the Civic Theatre.

Additionally, the City reports the following fund types:

Internal Service Fund - The Self-insurance Fund accounts for the portion of the City's insurance liability not covered by commercially provided insurance.

Pension and Other Employee Benefits Funds - The Pension and Other Employee Benefits Funds account for the resources set aside by the City to provide retirement, health, and insurance benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

Private Purpose Trust Fund - The private purpose trust fund accounts for resources restricted for the upkeep and maintenance of the City's cemetery.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes federal grants as nonoperating revenue, since the funds are intended to recover the cost of the related infrastructure.

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - All trade and property tax receivables are shown as net of allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2004 taxable valuation of the City totaled \$380 million, on which ad valorem taxes levied consisted of 11.5163 mills for the City's operating purposes, .1000 mills for sidewalk maintenance, 2.2200 mills for drain and sewer improvements, 1.0000 mills for street improvements and maintenance, and .2800 mills for debt service related to the new 47th District Court facility. The ad valorem taxes levied raised \$4,298,000 for operations, \$38,000 for sidewalk maintenance, \$828,000 for drain and sewer improvements, \$373,000 for street improvements and maintenance, and \$104,000 for debt service related to the 47th District Court facility. These amounts are recognized in the respective General, Special Revenue, Debt Service, and Enterprise Funds as tax revenue.

Prepaid Costs and Other Assets - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Other assets consist primarily of inventories, which are valued at cost, on a first-in, first-out basis.

Restricted Assets - Restricted assets consist of cash and cash equivalents in the amount of \$76,928 in the Water and Sewer Fund. The assets are restricted for the following purposes:

- \$75,000 of the assets are restricted for a replacement reserve as required by the 1991 Water Supply and Sewer Disposal System Bond ordinance
- \$1,928 of the assets are restricted for debt service

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$4,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's capital assets are depreciated using the straight-line method over the following useful lives:

Flowage rights	25 years
County roads	20-30 years
Infrastructure	10-50 years
Buildings and improvements	5-80 years
Court building	10-50 years
Equipment and other	4-25 years
Vehicles	3-30 years
Water and sewer mains	50 years
Water storage tank	50 years
Water meters	20 years
Truck and tractors	7-15 years
Office equipment	5-20 years
Other equipment	5-15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. In the government-wide and proprietary fund financial statements, a portion of the vacation and sick pay is accrued when incurred for the amount that would be paid out upon separation of the employee from the City. In the governmental funds, a liability for these amounts is reported only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2004		\$ (125,637)
Current year building permit revenue		93,362
Related expenses:		
Direct costs	\$ 89,901	
Estimated indirect costs	<u>8,990</u>	
Total construction code expenses		<u>98,891</u>
Net shortfall for the year ended June 30, 2005		<u>(5,529)</u>
Cumulative shortfall at June 30, 2005		<u><u>\$ (131,166)</u></u>

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The City Charter requires the city manager to submit a budget for the next fiscal year to the City Council on or before the third Monday in April, and the City Council to adopt, by resolution, a budget for the next fiscal year on or after May 1 and not later than the first Monday in June. The City Council may pass amendments to the budget during the fiscal year by resolution.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and major Special Revenue Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor funds can be obtained from the City offices at 23600 Liberty Street, Farmington, MI 48335.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Transfers from other funds and proceeds from sale of assets have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Capital outlay related to purchasing the ownership interest of jointly owned assets, financed through the owner of the asset, is not recorded as an expense until the payments are made.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

The pension trust fund and retiree health care fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment all investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$1,427,956 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investments	Fair Value	Weighted Average Maturity
U.S. federal agencies	\$ 1,880,230	24.37 years
Corporate bonds	2,992,827	7.99 years
Mutual funds	1,593,862	4.5 years

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
U.S. federal agencies	\$ 1,880,230	Not Rated	
Corporate bonds	163,593	AAA	Standard and Poors
Corporate bonds	100,941	AA	Standard and Poors
Corporate bonds	598,820	A+	Standard and Poors
Corporate bonds	369,196	A	Standard and Poors
Corporate bonds	346,591	AA-	Standard and Poors
Corporate bonds	109,519	A-	Standard and Poors
Corporate bonds	213,067	BBB+	Standard and Poors
Corporate bonds	448,262	BBB	Standard and Poors
Corporate bonds	220,503	BBB-	Standard and Poors
Corporate bonds	151,724	BB+	Standard and Poors
Corporate bonds	270,611	Not Rated	
Pooled investments	6,527,787	AAA	Standard and Poors
Pooled investments	6,313,358	Not Rated	
Pooled foreign investments	2,487,905	Not Rated	

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The City has no investment policy regarding foreign currency risk. The following securities are subject to foreign currency risk:

Investments	Currency	Maturity	Fair Value
Pooled foreign investments	Various	N/A	\$ 2,487,905

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Receivables

Receivables as of year end for the City's individual major funds are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Total
Receivables:				
Taxes	\$ 109,117	\$ -	\$ -	\$ 109,117
Special assessments	1,642	-	-	1,642
Intergovernmental	288,541	77,197	54,821	420,559
Interest and other	55,379	-	-	55,379
Total receivables	<u>\$ 454,679</u>	<u>\$ 77,197</u>	<u>\$ 54,821</u>	<u>\$ 586,697</u>

Receivables as of year end for the City's Enterprise Fund are as follows:

	Water and Sewer Fund
Receivables:	
Taxes	\$ 64,517
Customer receivables	889,512
Intergovernmental	<u>7,712</u>
Total receivables	<u>\$ 961,741</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Transfers	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 1,185,454	\$ -	\$ 160,548	\$ -	\$ 1,346,002
Equity investment in 47th District Court	15,393	-	-	(924)	14,469
Construction in progress - 03/04 sidewalk	56,759	(56,759)	-	-	-
Construction in progress - Downtown development	-	-	225,813	-	225,813
Subtotal	1,257,606	(56,759)	386,361	(924)	1,586,284
Capital assets being depreciated/ amortized:					
Flowage rights	946,170	-	-	-	946,170
County roads	391,690	-	-	-	391,690
Infrastructure	9,129,222	56,759	488,021	-	9,674,002
Buildings and improvements	2,759,238	-	43,748	-	2,802,986
Court building	1,757,490	-	552,996	-	2,310,486
Equipment and other	641,374	-	7,777	(9,168)	639,983
Vehicles	1,137,107	-	109,423	(73,526)	1,173,004
Subtotal	16,762,291	56,759	1,201,965	(82,694)	17,938,321
Accumulated depreciation/ amortization:					
Flowage rights	549,381	-	37,847	-	587,228
County roads	13,056	-	13,057	-	26,113
Infrastructure	3,292,588	-	366,947	-	3,659,535
Buildings and improvements	1,103,609	-	96,495	-	1,200,104
Court building	71,233	-	58,384	-	129,617
Equipment and other	438,578	-	48,344	(9,168)	477,754
Vehicles	665,332	-	92,929	(147,245)	611,016
Subtotal	6,133,777	-	714,003	(156,413)	6,691,367
Net capital assets being depreciated	10,628,514	56,759	487,962	73,719	11,246,954
Net capital assets	\$ 11,886,120	\$ -	\$ 874,323	\$ 72,795	\$ 12,833,238

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 173,509	\$ 500	\$ -	\$ 174,009
Construction in progress	27,824	31,605	(27,824)	31,605
Subtotal	201,333	32,105	(27,824)	205,614
Capital assets being depreciated:				
Building	1,791,377	77,640	-	1,869,017
Water and sewer mains	23,985,379	34,612	-	24,019,991
Water storage tank	53,791	-	-	53,791
Water meters	145,613	1,473	-	147,086
Truck and tractors	344,431	30,218	(16,339)	358,310
Office equipment	284,102	2,808	-	286,910
Other equipment	168,598	-	-	168,598
Subtotal	26,773,291	146,751	(16,339)	26,903,703
Accumulated depreciation:				
Buildings	558,974	51,324	-	610,298
Water and sewer mains	7,790,566	482,656	-	8,273,222
Water storage tank	48,420	1,076	-	49,496
Water meters	129,644	2,178	-	131,822
Truck and tractors	223,418	30,515	(16,339)	237,594
Office equipment	193,508	21,470	-	214,978
Other equipment	83,067	6,586	-	89,653
Subtotal	9,027,597	595,805	(16,339)	9,607,063
Net capital assets being depreciated	17,745,694	(449,054)	-	17,296,640
Net capital assets	<u>\$ 17,947,027</u>	<u>\$ (416,949)</u>	<u>\$ (27,824)</u>	<u>\$ 17,502,254</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Component Unit	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated -				
Land	\$ 76,500	\$ -	\$ -	\$ 76,500
Capital assets being depreciated:				
Land improvements	82,781	10,095	-	92,876
Office equipment	4,380	-	-	4,380
Green areas	29,914	-	-	29,914
Subtotal	117,075	10,095	-	127,170
Accumulated depreciation:				
Land improvements	11,034	2,243	-	13,277
Office equipment	-	1,752	-	1,752
Green areas	23,931	5,982	-	29,913
Subtotal	34,965	9,977	-	44,942
Net capital assets being depreciated	82,110	118	-	82,228
Net capital assets	<u>\$ 158,610</u>	<u>\$ 118</u>	<u>\$ -</u>	<u>\$ 158,728</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 107,921
Public safety	118,306
Public works	447,646
Recreation and culture	40,130

Total governmental activities \$ 714,003

Business-type activities:

Water and sewer	\$ 562,532
Theater	33,273

Total business-type activities \$ 595,805

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Major Streets Fund	\$ 11,805
	Local Streets Fund	11,527
	Downtown Capital Projects	225,813
	Water and Sewer Fund	26,822
	Farmington Community Theater Fund	53
Total General Fund		276,020
Major Streets Fund	Municipal Streets Fund	55,412
Local Streets Fund	Municipal Streets Fund	310,151
	Major Streets Fund	14,685
Total Local Street Fund		324,836
Capital Improvement Fund	Farmington Community Theater Fund	118,895
Downtown Capital Projects	Capital Improvement Fund	225,813
Total Governmental Funds		\$ 1,000,976
Water and Sewer Fund	General Fund	20,848
Farmington Community Theater Fund	General Fund	86,883
Total Enterprise Funds		\$ 107,731

Interfund balances arise from the centralized disbursement system as well as reimbursements.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	General Fund	Transfers Out				Total
		Major Streets Fund	Local Streets Fund	Municipal Streets Fund	Capital Improvement Fund	
Transfers in:						
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 318,182	\$ 318,182
Major Streets Fund	-	-	-	55,412	-	55,412
Local Streets Fund	-	14,685	-	310,151	-	324,836
Downtown Capital Projects Fund	-	-	-	-	225,813	225,813
Nonmajor Funds	-	-	41,058	-	-	41,058
Farmington Community Theater Fund	75,633	-	-	-	857,754	933,387
Total	<u>\$ 75,633</u>	<u>\$ 14,685</u>	<u>\$ 41,058</u>	<u>\$ 365,563</u>	<u>\$ 1,401,749</u>	<u>\$ 1,898,688</u>

The transfer from the General Fund to the Farmington Community Theater Fund was made primarily to finance the theater's debt service.

The transfer from the Major Streets Fund to the Local Streets Fund was made to provide funds for Local Streets projects.

The transfer from the Local Streets Fund to the nonmajor funds was made to pay for debt service on the 1995 Michigan Transportation Fund bonds.

Transfers from the Municipal Streets Fund to the Major and Local Streets Funds were made to finance a portion of the cost of the City's road programs.

The transfer from the Capital Improvement Fund to the General Fund was made to provide funds for the purchase of the old 47th District Court Building. The transfer from the Capital Improvement Fund to the Downtown Capital Projects Fund was made to cover the cost of preliminary engineering and construction related to the downtown development project. The transfer from the Capital Improvement Fund to the Farmington Theater Fund was made in conjunction with the forgiveness of a long-term advance from the Capital Improvement Fund to the Farmington Theater Fund.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. The general obligation bonds are direct obligations and pledge the full faith and credit of the City. The county drain contracts and Michigan Transportation Fund Bonds are also general obligations of the government. The Court Building Agreement with Farmington Hills provides for future payments to Farmington Hills related to the City's purchase of the old 47th District Court building from Farmington Hills. The Building Authority Bonds are general obligations of the Farmington Hills Building Authority. Both the City of Farmington and the City of Farmington Hills have signed lease agreements with the Farmington Hills Building Authority, which provide for lease payments in the exact amount of the debt service on the Building Authority Bonds. The City of Farmington's portion of these lease payments is recorded below. Revenue bonds involve a pledge of specific income derived from the acquired or constructed access to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Bond and contract obligations:							
Transportation Fund Bond:							
1995 Michigan Transportation Fund Bonds:							
Amount of issue - \$380,000	5.25%-	\$30,000					
Maturing through 2009	5.65%	\$40,000	\$ 210,000	\$ -	\$ (30,000)	\$ 180,000	\$ 30,000
County drain contract:							
2003 Caddell Drain Refunding Issue:							
Amount of issue - \$286,280	2.0%-	\$22,143-					
Maturing through 2014	4.0%	\$26,097	268,091	-	(22,143)	245,948	22,143
Court Building Agreement with Farmington Hills							
Amount of issue-\$356,772							
Maturing through 2007	5.0%	\$178,386	-	356,772	-	356,772	178,386
Building Authority Bond:							
2001 Building Authority Bonds -							
47th District Court:							
Amount of issue - \$1,400,300**	3.875%-	\$38,190-					
Maturing through 2021	5.0%	\$127,300	1,334,310	-	(40,260)	1,294,050	38,190
Total governmental activities			\$ 1,812,401	\$ 356,772	\$ (92,403)	\$ 2,076,770	\$ 268,719

** Amount represents the City of Farmington's portion of bonds issued by the City of Farmington Hills' Building Authority.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
1990 Sewer Improvements:							
Amount of issue - \$12,000,000		\$655,000-					
Maturing through 2010	2.0%	\$725,000	\$ 4,770,000	\$ -	\$ (640,000)	\$ 4,130,000	\$ 655,000
2003 Capital Improvement Sewer Bonds:							
Amount of Issue - \$900,000	3.2%-	\$30,000-					
Maturing through 2023	4.8%	\$60,000	875,000	-	(25,000)	850,000	30,000
Revenue bonds:							
1991 Water Supply and Sewer Disposal							
System Bonds:							
Amount of issue - \$934,212		\$50,000-					
Maturing through 2013	2.0%	\$55,000	470,000	-	(50,000)	420,000	50,000
1999 Community Theatre Bonds:							
Amount of issue - \$690,000	5.0%-	\$40,000-					
Maturing through 2015	5.95%	\$65,000	590,000	-	(35,000)	555,000	40,000
Total business-type activities			\$ 6,705,000	\$ -	\$ (750,000)	\$ 5,955,000	\$ 775,000

Annual debt service requirements to maturity for the above governmental and business-type bonds and contracts are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 268,719	\$ 93,245	\$ 361,964	\$ 775,000	\$ 148,158	\$ 923,158
2007	290,403	80,639	371,042	785,000	130,978	915,978
2008	111,227	67,241	178,468	810,000	113,298	923,298
2009	115,436	62,442	177,878	825,000	95,065	920,065
2010	128,166	57,364	185,530	855,000	76,278	931,278
2011-2015	505,270	225,426	730,696	1,395,000	198,271	1,593,271
2016-2020	534,660	113,831	648,491	335,000	74,312	409,312
2021-2023	122,889	3,093	125,982	175,000	12,754	187,754
Total	\$ 2,076,770	\$ 703,281	\$ 2,780,051	\$ 5,955,000	\$ 849,114	\$ 6,804,114

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees, and participates in the Michigan Municipal Risk Management Authority, a risk pool for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Risk Management (Continued)

The MML risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The activity for the Authority is accounted for in the Self-insurance Fund.

Note 9 - Defined Benefit Pension Plan

Plan Description

The City of Farmington Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Farmington; this plan covers nearly all employees of the City. The system provides retirement and disability benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 34 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 55 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are made. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by ordinance and by negotiation with the City's competitive bargaining units and employee groups and requires a contribution from the employees of 0 percent to 3 percent, depending on employee group. The funding policy provides for periodic employer contributions at actuarially determined rates. Investment management costs of the plan are paid by the plan.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Costs

For the year ended June 30, 2005, the City's annual pension cost of \$206,638 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry actual age actuarial cost method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually (including an inflation component of 5 percent), (b) projected salary increases of 5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 5 percent per year, depending on age, attributable to seniority/merit, and (d) no postretirement benefit increase. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The excess of assets over the actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 20 years.

Reserves

As of June 30, 2005, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 335,539
Reserves for retired benefit payments	8,062,393

Three-year trend information as of June 30 follows:

	Fiscal Year Ended December 31		
	2005	2004	2003
Annual pension costs (APC)	\$ 206,638	\$ 141,974	\$ 24,962
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Farmington, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees and their eligible beneficiaries upon retirement, in accordance with labor contracts and employee agreements, and in accordance with the City of Farmington's Retiree Health Care Plan (the "Plan"). The Plan was established by ordinance and created under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999 and is administered by the City of Farmington. The Plan funds the City's share of retiree health care insurance premiums, which are based on the employee's years of service. The City is currently funding the Plan based on actuarial estimates, but is required by ordinance to fund the Plan on an actuarial basis on or before July 1, 2008. Currently, 34 retirees are eligible and 30 are participating. Expenditures for insurance premiums during the year amounted to approximately \$265,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 11 - Designated Fund Balance

The following is a summary of the unreserved fund balances of certain governmental funds with management's designations:

	General Fund	Major Street Fund	Capital Improvement Fund
Designated for:			
Cemeteries	\$ 46,259	\$ -	\$ -
Accrued benefits	725,083	-	-
Other	515,754	-	-
Subsequent year's expenditures	<u>283,925</u>	<u>2,680</u>	<u>192,850</u>
Total designated	<u>\$ 1,571,021</u>	<u>\$ 2,680</u>	<u>\$ 192,850</u>
Unreserved	<u>\$ 2,564,770</u>	<u>\$ 752,352</u>	<u>\$ 201,882</u>

Note 12 - Subsequent Events

Subsequent to June 30, 2005, the City approved the issuance of \$1,500,000 of Capital Improvement Bonds at interest rates ranging from 3.50 percent to 4.00 percent. The bonds are payable through the year ending June 30, 2020. Funds will be used for downtown development and will be repaid using general operating funds and special assessments.

Required Supplemental Information

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Resources (Inflows)				
Property taxes	\$ 4,444,079	\$ 4,479,425	\$ 4,485,685	\$ 6,260
Licenses and permits	94,510	122,935	132,527	9,592
Federal grants	66,840	90,465	64,297	(26,168)
State-shared revenues and grants	984,714	994,585	995,826	1,241
Charges for services	1,170,135	1,276,765	1,349,002	72,237
Fines and forfeits	405,500	405,500	413,665	8,165
Interest and rents	68,650	109,045	142,997	33,952
Other revenue	40,540	55,260	60,730	5,470
Transfers from other funds	63,290	393,975	318,182	(75,793)
Appropriation to fund balance	-	18,356	-	(18,356)
Total resources (inflows)	7,338,258	7,946,311	7,962,911	16,600
Charges to Appropriations (Outflows)				
General government	1,463,040	1,838,603	1,741,265	97,338
Court	413,712	413,712	400,310	13,402
Public safety	2,201,460	2,112,754	2,062,896	49,858
Public services	952,225	1,125,405	1,107,952	17,453
Health and welfare	13,996	13,229	12,960	269
Community and economic development	12,550	54,495	61,283	(6,788)
Recreation and culture	704,262	795,538	743,915	51,623
Insurance and bonds	113,745	114,500	114,494	6
Other (payroll taxes, insurances, benefits)	1,440,673	1,401,327	1,331,335	69,992
Interest	-	1,115	1,115	-
Transfers to other funds	22,595	75,633	75,633	-
Total charges to appropriations (outflows)	7,338,258	7,946,311	7,653,158	293,153
Transfers to Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 309,753</u>	<u>\$ 309,753</u>

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Resources (Inflows)				
State-shared revenue	\$ 395,060	\$ 395,060	\$ 393,128	\$ (1,932)
Contracts and grants	98,910	100,690	90,314	(10,376)
Other revenue	5,000	6,260	11,667	5,407
Transfers from Municipal Streets Fund	-	55,415	55,412	(3)
Appropriations from fund balance	9,961	-	-	-
Total resources (inflows)	508,931	557,425	550,521	(6,904)
Charges to Appropriations (Outflows)				
Construction	200,000	61,415	60,508	907
Operations and maintenance	294,250	300,835	289,086	11,749
Transfer to Local Streets Fund	14,681	14,685	14,685	-
Total charges to appropriations (outflows)	508,931	376,935	364,279	12,656
Transfers to Fund Balance	<u>\$ -</u>	<u>\$ 180,490</u>	<u>\$ 186,242</u>	<u>\$ 5,752</u>

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Resources (Inflows)				
State-shared revenue	\$ 169,650	\$ 169,650	\$ 169,083	\$ (567)
Transfer from Municipal Streets Fund	328,500	532,484	310,155	(222,329)
Transfer from Major Streets Fund	14,681	14,681	14,681	-
Other revenue	26,500	30,935	38,149	7,214
Appropriations from fund balance	36,119	-	-	-
Total resources (inflows)	575,450	747,750	532,068	(215,682)
Charges to Appropriations (Outflows)				
Construction	328,500	491,285	269,094	222,191
Operations and maintenance	205,750	202,305	173,683	28,622
Debt service	41,200	41,200	41,058	142
Total charges to appropriations (outflows)	575,450	734,790	483,835	250,955
Transfers to Fund Balance	<u>\$ -</u>	<u>\$ 12,960</u>	<u>\$ 48,233</u>	<u>\$ 35,273</u>

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Municipal Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Resources (Inflows)				
Property taxes	\$ 370,440	\$ 372,941	\$ 373,072	\$ 131
Other income	2,000	6,000	13,294	7,294
Appropriations to fund balance	-	208,959	-	(208,959)
Total resources (inflows)	372,440	587,900	386,366	(201,534)
Charges to Appropriations (Outflows)				
Transfer to Major Streets Fund	-	55,415	55,412	3
Transfer to Local Streets Fund	328,500	532,485	310,151	222,334
Total charges to appropriations (outflows)	328,500	587,900	365,563	222,337
Transfer to Fund Balance	\$ 43,940	\$ -	\$ 20,803	\$ 20,803

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Capital Improvement Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance With Amended Budget
Resources (Inflows)				
Investment income	\$ 20,000	\$ 25,550	\$ 41,373	\$ 15,823
Appropriations to fund balance	<u>163,290</u>	<u>1,694,539</u>	<u>1,360,376</u>	<u>(334,163)</u>
Total resources (inflows)	183,290	1,720,089	1,401,749	(318,340)
Charges to Appropriations (Outflows)				
Transfer to General Fund	63,290	393,975	318,182	75,793
Transfer to Downtown Capital Projects Fund	-	426,000	225,813	200,187
Transfer to Theatre Fund	<u>120,000</u>	<u>900,114</u>	<u>857,754</u>	<u>42,360</u>
Total charges to appropriations (outflows)	<u>183,290</u>	<u>1,720,089</u>	<u>1,401,749</u>	<u>318,340</u>
Transfers to Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Farmington, Michigan

Required Supplemental Information Retirement System Schedule of Funding Progress Year Ended June 30, 2005 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/98	\$ 12.50	\$ 9.30	\$ (3.20)	134.4	\$ 2.5	-
06/30/99	14.20	10.10	(4.10)	140.6	2.6	-
06/30/00	16.00	10.70	(5.30)	149.5	2.8	-
06/30/01	16.80	11.70	(5.10)	143.6	2.7	-
06/30/02	16.70	12.70	(4.00)	131.5	2.9	-
06/30/03	16.20	13.30	(2.90)	121.8	2.9	-
06/30/04	15.80	14.70	(1.10)	107.7	2.9	-

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
1999	06/30/98	\$ 162,271	100.0
2000	06/30/99	141,720	100.0
2001	06/30/00	89,216	100.0
2002	06/30/01	9,873	100.0
2003	06/30/02	24,962	100.0
2004	06/30/03	141,974	100.0
2005	06/30/04	206,638	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5%-10%
*Includes inflation at	5%
Cost of living adjustments	None

Other Supplemental Information

City of Farmington, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Debt		Total
	Nonvoted	1995 Act 175	Nonmajor
	Debt Service	Debt	Governmental Funds
Assets - Cash and investments	\$ 8,166	\$ -	\$ 8,166
Fund Balances - Reserved	\$ 8,166	\$ -	\$ 8,166

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2005

	Debt Service Funds		
	Nonvoted Debt Service	1995 Act 175 Debt	Total Nonmajor Governmental Funds
Revenues			
Property taxes	\$ 134,663	\$ -	\$ 134,663
Interest income	827	-	827
Total revenues	135,490	-	135,490
Expenditures			
Principal	62,403	30,000	92,403
Interest	71,436	11,058	82,494
Total expenditures	133,839	41,058	174,897
Excess of Expenditures Over Revenues	1,651	(41,058)	(39,407)
Other Financing Sources - Transfers in	-	41,058	41,058
Net Change in Fund Balances	1,651	-	1,651
Fund Balances - Beginning of year	6,515	-	6,515
Fund Balances - End of year	<u>\$ 8,166</u>	<u>\$ -</u>	<u>\$ 8,166</u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension and Other Employee Benefit Funds June 30, 2005

Pension and Other Employee Benefits					
	Public	Employee	Disability		
	Employee	Fringe	Health		
Employees'	Health Care	Benefits	Insurance		
Retirement System	Fund	Fund	Fund		Total
Assets					
Cash and investments:					
Cash and cash equivalents	8,510	\$ -	\$ -	\$ -	\$ 8,510
U.S. governmental securities	1,880,230	-	-	-	1,880,230
Corporate stock	5,689,081	-	-	-	5,689,081
Corporate bonds	2,992,827	-	-	-	2,992,827
Mutual funds	4,135,408	-	-	-	4,135,408
Investment pools	-	1,668,240	20,303	55,467	1,744,010
Receivables	1,125,429	3,927	-	-	1,129,356
Total assets	15,831,485	1,672,167	20,303	55,467	17,579,422
Liabilities					
Accounts payable	13,083	-	1,659	-	14,742
Accrued and other liabilities	25,555	-	-	-	25,555
Total liabilities	38,638	-	1,659	-	40,297
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 15,792,847</u>	<u>\$ 1,672,167</u>	<u>\$ 18,644</u>	<u>\$ 55,467</u>	<u>\$ 17,539,125</u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Funds Year Ended June 30, 2005

	Pension and Other Employee Benefits				
	Employees' Retirement System	Public Employee Health Care Fund	Employee Fringe Benefits Fund	Disability Health Insurance Fund	Total
Additions					
Investment income:					
Interest and dividends	\$ 485,177	\$ 37,804	\$ 509	\$ 971	\$ 524,461
Net realized and unrealized gain on investments	682,978	93,861	-	-	776,839
Less investment expenses	(96,401)	-	-	-	(96,401)
Net investment income	1,071,754	131,665	509	971	1,204,899
Contributions:					
Employer	206,638	292,440	29,487	1,055	529,620
Employee	48,211	-	1,159	1,055	50,425
Total contributions	254,849	292,440	30,646	2,110	580,045
Total additions	1,326,603	424,105	31,155	3,081	1,784,944
Deductions					
Benefit payments	753,870	-	33,692	-	787,562
Insurance costs	-	265,345	-	-	265,345
Total deductions	753,870	265,345	33,692	-	1,052,907
Net Increase in Plan Assets	572,733	158,760	(2,537)	3,081	732,037
Net Assets Held in Trust for Pension and Other Employee Benefits					
Beginning of year	15,220,114	1,513,407	21,181	52,386	16,807,088
End of year	<u>\$ 15,792,847</u>	<u>\$ 1,672,167</u>	<u>\$ 18,644</u>	<u>\$ 55,467</u>	<u>\$ 17,539,125</u>

September 16, 2005

Honorable Mayor and Members
of the City Council
City of Farmington
23600 Liberty
Farmington, MI 48335

Dear Mayor and City Council Members:

We recently completed our audit of the basic financial statements of City of Farmington, Michigan for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

DOWNTOWN DEVELOPMENT AUTHORITY

It is our understanding that the City and the Downtown Development Authority "DDA" are in the process of starting several large projects in the downtown area. The DDA is currently only capturing fifty percent of eligible taxes. Given the construction plans in the downtown area the City may want to consider discussing the current tax sharing agreement with the DDA board to see if it would be beneficial to have the DDA capture one hundred percent of eligible taxes during the construction period. Having the DDA capture one hundred percent of eligible taxes would reduce tax revenue in the City's funds but the benefit would be that the DDA would capture additional county taxes.

FARMINGTON COMMUNITY THEATER

During our testing at the theater we noted that daily cash receipts were not always deposited into the bank in a timely manner. In addition, we noted that all theater employees have access to the cash drawers during hours of operation. We would recommend reviewing the internal controls related to cash collections and deposits at the theater. Strengthening the controls would help minimize the possibility of a misappropriation of funds.

STATE SHARED REVENUE

The adopted budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state

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STATE SHARED REVENUE (Continued)

shared revenue payments revenue sharing and for fiscal years 2004/2005 and 2005/2006 the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of a changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

State shared revenue accounts for approximately 13% of the City's total General Fund revenue. The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$543,240	\$689,396	\$1,232,636	\$-
2001	\$535,626	\$676,371	\$1,211,997	\$20,639
2002	\$480,972	\$683,261	\$1,164,233	\$68,403
2003	\$407,583	\$694,828	\$1,102,411	\$130,225
2004	\$303,515	\$687,280	\$990,795	\$241,841
2005	\$276,312	\$703,683	\$979,995	\$252,641

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$276,000 at risk in its General Fund budget based on 2005 funding levels. We will continue to update the City as developments occur.

TRANSPORTATION MATTERS

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4% behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. The lower than anticipated collections could impact the City's fiscal year 2005/2006 budgets.

LOCAL GOVERNMENT FINANCE MODEL

This spring, the Governor issued an Executive Order assembling a Local Government Fiscal Task Force to study the financial challenges of Michigan local governments. It has yet to actually have its first meeting and get off the ground. While their report was originally due by November 30, 2005, the Local Government Fiscal Task Force held its first meeting in September 2005. Unrelated to the Local Government Fiscal Task Force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources).

PERSONAL PROPERTY TAX

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some matters are settled and resolved. Other open matters are at different stages. We have heard that a utility had made a settlement offer to certain local units at 75% of the amount owed them. In relation to this matter, during the proceedings related to change in the multiplier tables, it was discovered that certain utilities may have under reported their self constructed assets creating the potential that monies were due to local governments for under paid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of under reported self constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%

The 2004 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended 2005, the City Headlee maximum property tax rate for its operating levy was 16.2294 mills even though City Charter would allow the City to levy 20 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

COMPUTER SOFTWARE SELECTION

It is our understanding that the City is considering purchasing a new general ledger software package. Before such an investment is made, several aspects of a potential system should be taken into consideration including cost/benefit, existing and future potential capabilities, security, compatibility with existing hardware, and support. Our firm has a team of consultants who specialize in software application selection for municipalities. They are available to help the City through the software selection process.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Gordon E. Krater



William E. Brickey